

VZCZCXRO6453
PP RUEHAG RUEHDF RUEHIK RUEHLZ RUEHROV RUEHSR
DE RUEHLO #0626/01 0701249
ZNR UUUUU ZZH
P 111249Z MAR 09
FM AMEMBASSY LONDON
TO RUEHC/SECSTATE WASHDC PRIORITY 1683
INFO RUCNMEM/EU MEMBER STATES COLLECTIVE PRIORITY
RUEHMT/AMCONSUL MONTREAL PRIORITY 0001
RULSDMK/DEPT OF TRANSPORTATION WASHDC PRIORITY
RUCPDO/DEPT OF COMMERCE WASHDC PRIORITY
RHMFIUU/FAA NATIONAL HQ WASHINGTON DC PRIORITY

UNCLAS SECTION 01 OF 02 LONDON 000626

SENSITIVE
SIPDIS

E.O. 12958: N/A
TAGS: [EAIR](#) [ECON](#) [SENV](#) [UK](#)
SUBJECT: UK OPTIMISTIC BUT FIRM ON SEEKING LIBERALIZED
AVIATION RELATIONSHIP WITH THE U.S.

LONDON 00000626 001.2 OF 002

¶1. (U) Summary: The British government is optimistic in outlook, but firm in stance, in describing its goals for a stronger UK/EU aviation relationship with the U.S. The three key items on the British agenda, according to Francis Morgan, Head of International Aviation and Safety at Department for Transport, are: 1) obtaining final agreement on mutual recognition of U.S. and EU safety and regulatory regimes for aerospace products; 2) agreeing to environmental measures such as the EU's aviation Emissions Trading Scheme (ETS) or an equivalent international system to harness carbon emissions; and 3) progressing towards an open aviation area between the U.S. and EU through loosening of foreign ownership rules in Stage II of the Open Skies negotiations. In the Open Skies and aerospace products cases, Europe is concerned about American protectionist measures that hamper further liberalization of the cross-Atlantic aviation sector.

The UK is cautiously optimistic an agreement will be reached with U.S. and other aviation partners, and eagerly awaits further appointments to aviation and environmental positions in the Obama administration. HMG will continue to push its position, hoping for a non-protectionist solution. End Summary.

European Fears of U.S. Protectionism; Hope for Cooperation

¶2. (U) Morgan outlined his views in a presentation to the British American Business (American Chamber of Commerce equivalent) aviation group on March 4. He repeatedly stressed the UK was optimistic that agreement can be reached with the U.S. and other partners on further Open Skies market liberalization, the aerospace products agreement and a global carbon emissions program under the new U.S. administration. He also pointed to what he called signs of protectionism coming from the U.S. Congress and labor unions, saying they may save a certain number of jobs in one sector or region, while harming the opportunities of American companies and workers to prosper in the big picture. Morgan said EU labor unions, while not fully enamored of further liberalization, were much more open to it than their U.S. counterparts in large part because they saw integration of the EU aviation market worked better than expected.

¶3. (U) As an example of perceived nascent protectionism, Morgan pointed to Virgin America's tenuous position in certain U.S. political circles due to its partial ownership by foreigners, and the fact it is often investigated due to those links. Morgan said many American jobs would be at stake if political forces decided to undo that agreement, and questioned why such tinkering should occur during an economic crisis. Morgan discussed the strong integration within a previously fractious European market and the tight

cooperation between the U.S. and EU following the first round of Open Skies as evidence the two sides can work together if the political will exists.

14. (U) Acknowledging it will not be easy to dislodge some parties on both sides of the Atlantic from entrenched positions, Morgan said the EU and UK fear aviation is not a priority in the U.S., particularly with other industries asking for assistance and attention in this financial crisis.

He said officials in Europe are worried the U.S. will not take risks by opening up aviation as envisaged for Stage II negotiations, and said the UK and Europe need to make their case strongly why aviation matters, and why it is important to the industry and other sectors to open the market.

Aerospace Products

15. Morgan gave expanded views of three areas important to UK aviation policymakers. He described the current U.S.-EU Agreement on Aerospace Products as offering significant protection of safety standards through its mutual recognition of the other side's standards regimes, and bemoaned the fact it has not been signed or put into force yet. Morgan said the status quo - having two separate sets of standards - is a waste of money for companies. He said the UK is concerned that draft language in the U.S. Congress, which puts limitations on U.S. companies working at foreign facilities, would undermine the current agreement. HMG's position, he stressed, is that giving European and American airlines a choice of where to service their aircraft would bring joint benefits to the companies that outweighed protection of a few jobs.

Environment

LONDON 00000626 002.2 OF 002

16. On environmental issues, Morgan told the audience the UK was anxiously awaiting signals from Washington via its appointments to key transportation and environmental positions. He described the historic fault-line between the U.S. and EU on these issues, and said the European Emissions Trading Scheme was put forward as a way to break the log-jam between the two sides on instituting an international carbon emissions trading regime. The EU goal is an international regime, or equivalent regional regimes, to reduce emissions and trade credits. Morgan described UK officials as "hopeful" the new administration would bring a renewed interest in international cooperation and commitment to efforts. In response to a question on the burden that paying the Air Passenger Duty and an ETS charge would have on airlines, Morgan punted to future governments, saying they would have to balance the goals and the political pressures.

Open Skies Stage II

17. The benefits of the U.S.-EU Open Skies agreement have been clear, Morgan said. It brought competition and opened up new markets and flights. The EU, however, has always wanted to go further in establishing an Open Aviation Area. It has been successful in developing this area within the EU, Morgan said, which was evidence that the model could work for other areas, i.e., Europe and the U.S. The UK priority for Stage II negotiations is to obtain a loosening of foreign ownership requirements. Morgan pointed to European progress, and said UK airlines are now considered EU airlines. The UK believes foreign ownership rules are "anachronistic" in this age, with Morgan calling them "one of the only global industries that are still protectionist."

18. The UK will press its positions, Morgan said, hoping a non-protectionist result will follow. He said the aerospace and foreign ownership issues could be implemented within a

year once agreed upon. In response to a question, however, he said "clawback" of rights at Heathrow remained an option if there were no movement on discussions. Morgan also said the UK is not worried a potential British Airways - American Airlines anti-trust agreement could get in the way of U.S.-EU discussions or UK goals for Stage II.

19. (SBU) Comment: The UK's position on ETS and Stage II negotiations is little changed from previous stances. The tone, however, is less defensive than we have heard in the recent past. Morgan made a point of asking us to couch his message in a kinder and gentler way - but still stressing the same UK goals of a liberalized aviation market and a coordinated international emissions trading regime.

Visit London's Classified Website:
http://www.intelink.sgov.gov/wiki/Portal:United_Kingdom

LEBARON